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COMPLIANCE PROGRAM IN LATVIAS' BANKING SECTOR: THE RESULTS OF A SURVEY

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Regulators more than ever believe an efficient compliance function is a prerequisite for good corporate governance that should restore trust, integrity, and responsibility in the banks, findings in academic research has confirmed mentioned above in many countries. Compliance is key facet of governance because it shows how actually bank meets corporate responsibilities. The new guidelines in September 2011 had been issued by European Banking Authority with more attention to the compliance function.

Compliance is very complex function and covers different areas: Anti-money laundering, investment protection, consumer protection, data protection and etc. Compliance complexity arises from several factors. As human society becomes more complex, the complexity of regulation also increases. Compliance as an element of order follows the same development as regulation. Compliance organizational complexity is related to the fact that regardless of the compliance functions origin and make-up, regulators are demanding that compliance is built into the business process. With respect to banks complexity can be measured along three dimensions. Vertical complexity is the number of levels in organizational hierarchy, horizontal complexity is number of job titles or departments across organization, and spatial complexity is the number of geographical locations. From the organizational view point traditional compliance organizational structures are crumbling under the weight of ever-increasing regulations that drives greater accountability and transparency. Banks are building new and improved structures that support and enhance this new compliance environment, and best practices are emerging. The complexity of banking business and compliance function urges compliance and other bank managers to use the concepts of „systemic thinking", the bases of the new management culture of the twenty–first century. There appears exist a common approach that makes it possible to understand better and describe better the organized complexity – "systemic approach" that rests on the conception of "system."

Banking as any other business process is a socio – technical system, executed by humans and machines. Research problem of this paper is compliance program as a first-level element of the compliance management system in order to organize and manage human part of the banking business process in area of compliance. Basel Committee survey confirmed that regulators in some countries promote use of such system as a compliance organizational framework. Compliance management system in a context of organization consists of three interdependent elements: Board oversight, compliance program and compliance audit program.

The objective of this paper is to address organizational aspects of compliance program and evaluate its current status in compliance regulatory framework and practical application in commercial banks in Latvia. The goal of the survey is to identify how compliance program is organized and how banks are designing this program as a compliance risk management tool to better prepare for demanding regulatory requirements. The results of a survey highlight lack of concept of compliance program in regulatory framework and necessary organizational improvements are recommended, especially for small and medium size banks.

Research methodology: Theoretical update of publications related to compliance program issues in banks. Empirical research is performed by survey of all commercial banks in Latvia. The survey is carried out through a structured questionnaire to get information on presence of the compliance framework and its implementation. Questionnaire is divided into several sections: status and profile of the compliance top manager; organizational issues of compliance function: status of compliance program; level of education, knowledge and experience of compliance specialists, compliance training, number of compliance and overall staff, reporting lines and role of the board. For evaluation is used 10 point scale, where 1 – fully disagree, 10 – fully agree. The survey data are analyzed by help of descriptive statistics (indicators of central tendency or location, indicators of variability and cross – tabulations).

In the survey performed in all commercial banks of Latvia (22) were received 19 responses (response rate 86,4%). It is found that in general, banks in Latvia are responding positively to regulation developments and following global compliance risk management trends. The banks interviewed underline the need to have more clear and updated guidelines from regulator regarding compliance program. The survey supported development of agenda for newly established Compliance Committee in Latvian Commercial banking Association and has indicated that the respective Compliance Committee will have to do a lot of work.

Keywords: *banks, regulation, compliance management system, compliance function, compliance program, Latvia.*

Introduction

The purpose of this paper is to examine the status of the compliance program as an organizational framework for the compliance risk management in Latvia's banking sector from a theoretical perspective and practical application.

The role of the compliance in EU financial market is growing and according EU research (2009) will continue to grow. Many factors make compliance risk management in financial services institutions particularly demanding. Among them: an increased focus by regulators on compliance risk management as the main supervisory objectives in EU countries are to ensure compliance with relevant laws and regulations. The regulations as such are not to be blamed in a context of financial crisis, moreover the control mechanism that is being reformed and overhauled (Chambers 2010). Basel Committee on Banking Supervision (Basel Committee 2010) and the new European Banking Authority (EBA 2011) provide high-level principles and guidance to some areas where weaknesses have emerged during the financial crisis, such as oversight of the supervisory function, risk management and internal control frameworks. The Risk Control, Internal Audit and Compliance functions are named as a core of Internal Control framework. EU Commission proposed to make sanctions for non-compliance more of a deterrent and will make proposals on how Member State sanctions should be strengthened and adequately enforced. The new EU regulatory environment not only makes the compliance risk management more complicated and difficult, but also much more important. The role of the compliance risk management has been growing and this will require original ideas, new methods and approaches to the knowledge concerning the compliance risk management.On top of this, banks must balance the increased costs associated with these changes in today's compliance environment against their need to operate efficiently and grow their businesses.

This article is one of the steps for compliance academic study started by author few years ago and is supplementary to previous research regarding various aspects of compliance risk management in Latvia (Lagzdins 2011, 2012). The study was inspired by the Birindelli (2008) paper that highlights the results of survey on compliance practices in Italian banks and branches in Italy of foreign banks and is limited by the fact that it considers one financial sector system (banking). Bank based system still dominates in most of continental Europe (Giardone et al 2009) and also in Latvia, where banks have 92.4% of total financial sector assets (FCMC 2012). Banking sector in Latvia is presented only by commercial banks. Latvia like Italy implemented a compliance regulatory framework in 2007, while in many countries a specific regulatory requirement for Compliance function (or analogous) had been already introduced. Birindelli confirmed several hypotheses among them: since foreign regulators have generally begun to pay attention to the compliance issue earlier, there is concern that local banks are behind the global compliance development. The similar hypotheses can be relevant to the Latvian banking sector and therefore should be tested. This stimulates to organize an academic study on compliance risk management practices in Latvia's banking sector that wasn't done before.

The complexity of banking business and compliance function urges compliance and other bank managers to use the concepts of „systemic thinking", the bases of the new management culture of the twenty–first century. There appears exist a common approach that makes it possible to understand better and describe better the organized complexity – "systemic approach" that rests on the conception of "system."

Banking as any other business process is a socio – technical system, executed by humans and machines. Research problem of this paper is compliance program as an element of compliance management system in order to organize and manage human part of the banking business process in area of compliance. Basel Committee survey (2008) confirmed that regulators in some countries promote use of such system as a compliance organizational framework. Compliance management system in a context of organization consists of three interdependent elements: Board oversight, **compliance program** and compliance audit program.

In general the expectations for compliance risk management in banks are consistent with the principles outlined in a paper issued in April 2005 by the Basel Committee (2005). The high-level principles have become widely recognized as global sound practices for compliance risk management and oversight, and the regulators (FED 2008); (FKTK 2007) from different countries including Latvia endorse these principles. The current global compliance risk regulatory framework can be summarized in one sentence: compliance function must be established to manage compliance risk. But how compliance function needs to be organized and structured? Under the principal 7: compliance function responsibilities, the Basel Committee offers that compliance function should be carried out under a compliance program. Survey organized by Basel Committee in 2008 confirmed that the establishment of a compliance program are mentioned in 13 jurisdictions from 21 participated in the survey. The Financial Action Task Force (FATF), another global policy-making body, in its recommendation 18 (2012) state that financial institutions should require to implement programmes against money laundering and terrorist financing.

It makes sense to assume that appropriately designed and implemented compliance management system and its compliance program aimed at establishing compliance responsibilities, communicating those responsibilities to employees and stakeholders, ensuring that responsibilities for meeting legal requirements and internal policies are incorporated into business processes, should improve compliance.

Against the above-mentioned background it's important to review if and how compliance program concept is used in Latvia.

Research object is the compliance function in Latvia's banking sector.

The aim of the article is to evaluate the status of compliance program as tool for compliance risk management.

The research tasks are the following:

- Systemize knowledge around program management and compliance program;
- Evaluate status of the compliance program in the compliance legal framework;
- Trough the specially organized survey to find a practical application of compliance program in commercial banks;

The research methods involve analysis of the EU policy documents and studies; Latvian laws and regulations related to compliance in the financial sector; compliance literature review and analysis of the research regarding practical application of the compliance program in US;

The research novelty is investigation of Latvia's legislative documents and practice related to the organization of the compliance function in commercial banks.

Program approach and theoretical background

Author in his previous study (Lagzdins 2012) found that management literature (Johnson et al, deRosnay, Boulding, Kerzner, Shaw et al, Anderson and researchers in Latvia: Solovjova, Stasane) strongly supports the use of systemic approach to understand better and describe better the organized complexity.

The systemic approach rests on the conception of system. "A system is a set of elements in dynamic interaction, organized for a goal" (J.de Rosnay 1979). He defines complexity by using two important factors: the variety of elements and the interaction between elements. The concept of system appears in two complementary aspects: it enables the organization of knowledge and it renders action more efficient. De Andres and Valledo (2008) analyzed studies of Furfine, Levine, Morgan and concluded that complexity of the banking business increases the asymmetry of information and greatly aggravates the governance problem. Compliance organizational complexity is related to the fact that regardless of the compliance functions origin and make-up, regulators are demanding that compliance is built into the business process.

Author agrees with Kerzner (1998) and (J.de Rosnay 1979) that new thinking is needed to find a original ideas, new methods and approaches to the knowledge of the management. Kerzner in his book, defines systemic approach as: a logical and disciplined process of problem solving that forces review of the interrelationship of the various subsystems; a dynamic process that integrates all activities into meaningful total system and systematically assembles and matches the parts of the system into a unified whole as well as seeks an optimal solution or strategy in solving a problem. He concludes that objective instead subjective thinking is a fundamental characteristic of the system approach and main emphasis is on tendency to view events and ideas as external and apart from self-consciousness. Subjective thinking is based on subjective experience, judgment, and intuition is that this fails to recognize the existence of alternatives. Application of the system theory to business created a systems management technique that includes program and project management. Military and government organizations were the first to attempt to define clear boundaries of systems, programs, and projects. Programs can be construed as the necessary first-level elements of a system and literature define it as the integrated, time-phased tasks necessary to accomplish a particular purpose. Programs can be regarded as subsystems. Program sometimes programme is a series of steps to be carried out or goals to be accomplished (http://www.thefreedictionary.com/program). For the purpose of this paper author selected and reviewed research papers related to the different aspects of program management and aim to answer on question – why program management could be applicable to the compliance management? The programs are named as tools to manage continuing change (Harpham 2005), or "unique assignments" (Wijnen and Cor 2000). Such terms are relevant to current banking compliance environment. Authors of the papers name project and program management as tools that provide a framework for tackling the problem, and give managers the building blocks to enable them to plan and control progress towards the intended outcome (s). Both papers discuss the differences between project and program management and conclude that programs differ from large projects primarily because of their goal orientation rather than their focus on results. Program management was conceived as a process that converted an organization's strategy into a coherent set of projects designed to achieve that strategy. Program management enables that fundamental question to be asked before starting a project: ''Where does it fit into our strategy?'' Program management allows for the top-down planning of programs and projects in a rational and coherent way. Programs tend to bring together people whose agendas conflict and whose motivations are disparate. Unlike projects, programs have no distinctive start or end and therefore provide both a vehicle and a disciplined approach to managing change in organizations. Integral to program management is benefits management – a focus on delivering the benefits of the project rather than just the project itself. Wijnen and Cor define program development stages slightly differently as Kerzner in his famous text book (conceptual, planning, definition and design, implementation and conversion). The first element of the program they define as a programming, in which the goals are specified and the methods by which they will be achieved are planned. The second managing and progress control. Managing should be measured against five criteria: tempo (time), feasibility, efficiency, flexibility and goal orientation. Progress control is a combination of two approaches: regular and ad-hoc. The third element is decision-making.

Several researchers (Vereecke et al 2003, Bryde 2003) provide empirical evidence for situations in which there are problems in applying the program theories in practice. The research shows that the formalised and rigorous approach as described in most program management handbooks is not widely adopted. The cases show less centralization, less formalization and less management of the interdependencies between the projects in the program then one would expect on the basis of the program management literature.

Walker (2010) provides program managers with program management templates and forms, but review of practical application from practitioners and researchers is still to come. Sanchez et al (2009) review shows that project risk management is a well developed domain in comparison to the program risk management, for which specifically written methodologies are difficult to find.

Compliance program and literature

Why banks need a compliance program? Answer could be find in Basel Committee (2005) paper that offers compliance function to curry out under a compliance program, which sets out planned activities, such as the implementation and review of specific policies and procedures, compliance risk assessment, compliance testing, and educating staff on compliance matters. The compliance program should be risk-based and subject to oversight by the head of compliance to ensure appropriate coverage across businesses and co-ordination among risk management functions. Despite the fact that Basel Committee survey confirms establishment of a compliance program in 13 jurisdictions, the author's high-level compliance literature review of English language publications provide only research papers regarding US. Author would like to refer his study (Lagzdins 2012) and use Caret et.al (2009) banking board effectiveness model that offers best practice as one of the tools. To truly be considered a "best practice", a practice would need to have a great deal of history and consensus from many users. The United States (US) has the longest history for the compliance function of any country. The compliance in US started in 1930th and therefore could be looked as place for a "best practice". The US banking regulators all defined compliance program as framework for compliance function since 1991.

The Institute of Internal Auditors (2003) provides answer to the above question. Compliance programs assist organizations in preventing inadvertent employee violations, detecting illegal activities, and discouraging intentional employee violations. On May 1, 1991, the United States Sentencing Commission (USSC) officially promulgated the Federal Sentencing Guidelines for Organizations (FSGO). They were latter amended effective November 1, 2004. An organization may receive more beneficial treatment under FSGO if it has an "effective program to prevent and detect violations of law". Such program would significantly decrease the amount of the fine that would otherwise be incurred. The separate study is needed to find the legal framework for compliance program in other countries and to discuss if the US concept could be used in a case of EU sanctions regime reform (Lagzdins 2011).

What is compliance program? Kelsey (2003) note that a bank's compliance program is an essential component of the institution's overall risk management framework. As regulatory expectations continue to increase, the challenge is to successfully implement a compliance program that is a proactive component of the institution's risk management culture and imbedded in the institution's operating units.

Biegelman (2008), Kenedy et al (2004), Bundy and Pardon (2007), Scott (2003), US FED provide all details of the compliance program requirements. The summary of this strand of literature conclude that the objective of a compliance program is to create a process for identifying and reducing risk and improving internal controls. Stated another way, from a legal enforcement standpoint, an effective compliance program reduces the likelihood that an organization will be found to have recklessly disregarded or deliberately violated the law. In its simplest terms, a compliance program is a systematic process aimed at ensuring that the organization and its employees (and perhaps business partners) comply with applicable laws, regulations, and standards. Compliance literature recognizes that Compliance program has two basic components - structural and substantive.

The structural component includes the basic framework necessary to build and operate an effective compliance program. The structural component includes those elements articulated by the FSGO as necessary elements of a compliance program. These elements would typically be included in any compliance program, regardless of the substantive legal or regulatory issues the organization is trying to address. In fact, the Sentencing Guidelines discuss seven elements of a compliance program. All elements are important, but first two are recognized by researchers as a basis of a sound compliance program.

1. Compliance Standards: "The organization must have established compliance standards and procedures to be followed by its employees and other agents that are reasonably capable of reducing the prospect of criminal conduct." Wolosz (2009) finds that financial services organizations need to take steps for creating, controlling and distributing the right policies and procedures to the right audience based on the right interpretation of laws, regulations and guidance a propos to their businesses. In large complex firms today, the ongoing maintenance of rules, policies, and procedures cannot exist without the assistance of an automated solution.

2. High Level Responsibility: "Specific individual(s) within high level personnel of the organization must have been assigned overall responsibility to oversee compliance with such standards and procedures."

Several papers highlight the importance of the top compliance manager in the preparation of the compliance program. Sobol (2009) argues that compliance professionals need deep and very practical knowledge. They should be able to speak on the general compliance program matters (risk assessment, administration of compliance program, conflicts of interest, litigation regulatory inquires, recordkeeping etc.)

Majewski (2006) finds conflicts of interest that top compliance manager may face in implementing a compliance program. Conflicts can be reduced if he reports to the board of directors and should seek independent outside sources to help identify and resolve compliance issues.

3. Trustworthy Individuals: "The organization must have used due care not to delegate substantial discretionary authority to individuals whom the organization knew, or should have known through the exercise of due diligence, had a propensity to engage in illegal activities."

4. Education: "The organization must have taken steps to communicate effectively its standards and procedures to all employees and other agents, by requiring participation in training programs or by disseminating publications that explain in a practical manner what is required."

5. Monitoring and Auditing: "The organization must have taken reasonable steps to achieve compliance with the standards, by utilizing monitoring and auditing systems reasonably designed to detect criminal conduct by its employees and other agents and by having in place and publicizing a reporting system whereby employees and other agents could report criminal conduct by others within the organization without fear of retribution."

6. Enforcement and Discipline: "The standards must have been consistently enforced through appropriate disciplinary mechanisms, including, as appropriate, discipline of individuals responsible for the failure to detect an offense. Adequate discipline of individuals responsible for an offense is a necessary component of enforcement; however, the form of discipline that will be appropriate will be case specific."

7. Response and Prevention: "After an offense has been detected, the organization must have taken all reasonable steps to respond appropriately to the offense and to prevent further similar offenses - including any necessary modifications to its program to prevent and detect violations of law."

The substantive component relates to the specific body of substantive law with which the organization is attempting to comply. Organizations frequently develop policies and education programs that explain to affected employees the obligations that the law imposes upon them in the performance of their particular job function. Author in his previous studies (Lagzdins 2011) provides a comprehensive overview of the laws which banks should comply in EU and is under responsibility of compliance function.

Reviewed papers agree that a compliance program is much more than a policy communicating the organization's intent to comply with the applicable laws. In order to be effective, the compliance program must be designed in a manner which: addresses the organization's business activities and consequent risks; educates those persons whose jobs could have a material impact on those risks; includes auditing and reporting functions designed to measure the organization's actual compliance, and the effectiveness of the program, and to identify problems as quickly and as efficiently as possible; provides for the prompt remediation of problems which are identified; and contains enforcement and discipline components that ensure that employees take seriously their compliance responsibilities. Creating an effective compliance program requires the commitment of the organization to comply with applicable laws. It also requires a systematic effort (scaled to the size, resources, and complexity of the organization) to understand its principal legal obligations and risks and to make employees aware of how the relevant laws and risks impact the performance of their job functions. In addition, employees will be made aware of their obligation to be an active participant in the organization's compliance effort.

Due to limitation of this paper the other aspects of compliance program such as assessment of the effectiveness of the program, evaluation and measurement, specific program (including anti-money laundering) requirements should be subject of the future research and call for discussion in separate papers.

Practical application of the concept of compliance program in Latvia

Compliance legal framework. In Latvia, the bank regulator is the Financial and Capital Market Commission (FCMC). Similar to other bank regulators, it must decide on compliance regulatory framework. The analysis of the FCMC requirements confirmed that such framework is defined in two laws:

1. Law on the Prevention of Laundering the Proceeds from Criminal Activity (Money Laundering) and of Terrorist Financing (approved: July17, 2008; http://www.fktk.lv/en/law/general/laws/2010-04-01_law_on_the_prevention_of/);
2. Law on the Financial Instruments Market (approved: November 20, 2003; http://www.fktk.lv/en/law/financial_instruments_market/laws/);

Three regulations:

1. FCMC Regulations for establishing an internal control system [No 63], (approved: May 2, 2007; http://www.fktk.lv/lv/tiesibu_akti/kreditiestades/fktk_izdotie_noteikumi/regulejosas_prasibas/20070502_ieksejas_kontroles_si/);
2. FCMC Operational risk management recommendations [No125], (approved: July 28, 2007; http://www.fktk.lv/lv/tiesibu_akti/vispareja/fktk_ieteikumi_un_vadlinijas/2010-01 25_20060728_operacionala_ri/);
3. FCMC Regulations on Credit Risk Management [No 194], (approved: July 28, 2007; http://www.fktk.lv/lv/tiesibu_akti/vispareja/fktk_izdotie_noteikumi/2010-01-11_kreditriska_parvaldisana/);

and non-binding guidance (hand book): FCMC Bank Risk Assessment Guide (approved: November 30, 2007; http://www.fktk.lv/lv/tiesibu_akti/direktivas/uzraudzibas_parbaudes_process/banku_risku_novertesanas_rokas/2011-10-12_banku_risku_novertesanas/).

1) http://www.likumi.lv/doc.php?id=178987, 2)http://www.likumi.lv/doc.php?mode=DOC&id=81995

three regulations:

1) http://www.fktk.lv/lv/tiesibu_akti/kreditiestades/fktk_izdotie_noteikumi/regulejosas_prasibas/20070502_ieksejas_kontroles_si/,
2) http://www.fktk.lv/lv/tiesibu_akti/vispareja/fktk_ieteikumi_un_vadlinijas/2010-01-25_20060728_operacionala_ri/,
3) http://www.fktk.lv/lv/tiesibu_akti/vispareja/fktk_izdotie_noteikumi/2010-01-11_kreditriska_parvaldisana/

and non-binding guidance (handbook):

http://www.fktk.lv/lv/tiesibu_akti/direktivas/uzraudzibas_parbaudes_process/banku_risku_novertesanas_rokas/2011-10-12_banku_risku_novertesanas/

Authors find that FCMC requirements regarding the compliance function are similar to Basel Committee recommendations and reflect to the wording and spirit in compliance literature. A risk management framework in Latvia consists of at a minimum the following three internal control functions: Internal Audit, Risk Management, and Compliance. The roles of each of the respective functions along with the Board of Directors, Senior Management, Compliance Staff and Business Unit personnel, all have a part to play in contributing to the overall success of the three internal control functions as they form an effective risk management framework. Latvian regulator FCMC doesn't distinguish levels of compliance function and don't use compliance program as an instrument for compliance risk management.

Compliance program in banks (results of survey organized by authors and LKBA). The empirical study consisted of survey and interviews with experts in compliance risk management who are the members of the Compliance Committee of the Latvian commercial Bankers Association. To carry out the empirical research, a web-based survey was conducted from December 2011 through January 2012 to collect information about compliance officers and the compliance function practices at their banks in Latvia. The goal of the survey was to identify how compliance function is organized and managed in Latvia's banking sector. The survey questionnaire was prepared by author and included also some similar questions from 2009 Bank Compliance Officers Survey organized by American Banking Association (http://www.aba.com/Members+Only/ Regulatory/ 2009BCOSurvey.htm) allowing to benchmark views against those of compliance peers in USA. The measures and the wording of each question were based on earlier qualitative and documentary research on compliance risk management as well as the theoretical considerations and the scholarly literature. A great variety of regulatory documents including Basel Committee and surveys of audit companies (PwC, KPMG) were also read. Questioner was accepted by Latvian Commercial Banking Association Compliance Committee.

The survey questionnaire contains 65 questions. The major topics include the following:

- Information about bank's most senior compliance manager
- Information about bank's compliance structure
- Education and training
- Compliance and Bank's Board

The Bank's most senior persons responsible for compliance function were invited to participate in the survey trough an email. Follow-up emails and announcements were used to encourage participation. By the response cutoff date, 19 commercial banks from 22 participated in the survey. Therefore response rate 86% compares well with the 40% response rate for similar survey in Italy.

The questionnaire was confidential: all survey results will be used only in updated version and will assist for the basis for real and practical recommendations regarding the necessary improvements in compliance risk management in the commercial banks. It took around 20 minutes to fill in the form. The main results related to the compliance program are described in this paper. One of the survey's major topic is "Information about bank's compliance structure" that include 21 question.

On question **„ Does your bank prescribe or impose particular requirements regarding the organization of the compliance function?"** was offered 2 options. To indicate on what extent the requirement is used in commercial banks in Latvia, evaluations were made in scale 1 – 10, where 1 – very low, 10 – very high. Results was analyzed by using special program SPSS. Qualitative analysis has been complemented by quantitative analysis trough applying indicators of central tendency or location (arithmetic mean, mode and median) as well as indicators of variability (variance, standard deviation, standard error of mean, range, etc). The main results are summarized in table 1.

Table 1

„ Does your bank prescribe or impose particular requirements regarding the organization of the compliance function?"

The establishment of the compliance management system					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	**Yes**	**16**	**84,2**	**88,9**	**88,9**
	No	2	10,5	11,1	100,0
	Total	18	94,7	100,0	
Missing	System	1	5,3		
Total		19	100,0		

Please, indicate year					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2000	1	5,3	9,1	9,1
	2007	2	10,5	18,2	27,3
	2008	5	26,3	45,5	72,7
	2009	2	10,5	18,2	90,9
	2010	1	5,3	9,1	100,0
	Total	11	57,9	100,0	
Missing	System	8	42,1		
Total		19	100,0		

Sixteen respondents or 84.2% have established compliance management system. The majority of respondents indicted that establishment took place after 2007.

Table 2

The establishment of the compliance audit program?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	7	36,8	70,0	70,0
	No	3	15,8	30,0	100,0
	Total	10	52,6	100,0	
Missing	System	9	47,4		
Total		19	100,0		
Please, indicate year					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2005	1	5,3	25,0	25,0
	2008	1	5,3	25,0	50,0
	2010	2	10,5	50,0	100,0
	Total	4	21,1	100,0	
Missing	System	15	78,9		
Total		19	100,0		

Audit independence?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	9	47,4	100,0	100,0
Missing	System	10	52,6		
Total		19	100,0		
Audit schedule?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	9	47,4	100,0	100,0
Missing	System	10	52,6		
Total		19	100,0		
Written audit reports?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	9	47,4	100,0	100,0
Missing	System	10	52,6		
Total		19	100,0		

Table 2, provide information regarding existence of the compliance audit program that is one of the three elements of the compliance management system. Only seven respondents or 36.8% indicated existence of the compliance audit program. 21.1% of respondents were able indicate a year of establishment. 47.4% confirmed audit independence and existence of audit schedule and written reports.

Conclusions

The research identified gaps and this could contribute to the debate on the compliance risk management in Latvia's banking sector - in training of compliance staff and used methods for training.

Currently empirical evidence reported in compliance literature is far from supporting the assumption that use of compliance program increases compliance in banks, but there are several benefits to be considered: the use of program approach facilitates objective thinking vs subjective thinking; the compliance program programs are named as tools to manage continuing change;

84.2% of respondents (16 from 19 [22banks total]) have compliance management system (CMS) that should contain all three interdependent elements (board oversight, AML, MiFID compliance programs and compliance audit program), but the same time only 36.8% (7 from 19) have audit program. Majority of the Banks have different understanding of CMS definition and despite of the absence of one element, they define CMS as fully operating. The same issue could be regarding AML and MiFID programs. The further research and discussion is needed regarding the development of the program approach and its practical application. For practical debate author considers to use Edwards' (2006) established compliance competence partnership model where the regulator and regulated need to work together in a proactive partnership in order to achieve compliance competent organization. In Latvia, individual financial institution used in model could be replaced by Commercial Banking Association and its Compliance Committee.

The partnership approach is needed for several reasons: 1) to respond Sathye's (2008) empirical evidence suggesting that owing to scale economies in regulatory compliance, the burden has fallen more heavily on smaller financial institutions. The same time regulatory controls in countries could run a risk of being understaffed, uncommitted or under-skilled (US 2012); 2) in current regulatory environment an industry and regulator consensus regarding improvements and introduction of best practices is crucial. Without such consensus, banks would resist for applying new models or approaches to their practices. Regulators in other countries (UK, US 2007) issue letters regarding good practices for managing compliance risk and this could be introduced also in Latvia.

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